



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

BOOK REVIEWS AND NOTICES

Principles of Insurance. By W. F. GEPHART. New York: Macmillan, 1917. Vol. I, *Life*, 12mo. Pp. xi+385. \$1.50. Vol. II, *Fire*, 12mo. Pp. xi+332. \$1.50.

These volumes are offered, according to their common preface, "not as a complete discussion of these two important forms of insurance, but rather as a statement of what is conceived to be the more important considerations which should receive study in a general course in life and fire insurance." The material used, the author states, has been selected "on the basis" of his experience as a teacher, his experience in the insurance business, and his "association with insurance organizations."

Volume I, *Life*, is a revision and enlargement of an earlier work published by the author in 1911 under the rather broad title *Principles of Insurance* (reviewed by Professor William H. Price in the *Journal of Political Economy*, XIX, December, 1911, 896). This fact, however, the author fails to acknowledge. The new volume is somewhat larger than the old—it contains about 70 pages more of text—but the chapters, with a few exceptions, have practically the same titles and follow in the same order as the chapters of the old volume, and the contents of the latter have, for the most part, been transplanted bodily to the new. The changes made consist chiefly of slight modifications in language and organization, the elimination of portions of the old volume, and the interpolation of considerable new material. Much of the new material shows evidence of careful preparation, but the work of revision seems to have been carelessly done. It should be said, however, that every chapter of the old volume which has been included in the new volume has been subjected to some degree of revision, and that every chapter of the latter includes some new material.

In general, the volume under consideration has both the virtues and the vices of its predecessor. It contains most of the information and exposition of theory which, according to its own pretensions, it should contain; it is generally accurate and free from bias; and the author is plainly a master of his subject. The book will be very useful to instructors and students of life insurance.

The new material in the book includes among other things the following: several valuable tables (pp. 79-80, 105, 209, 223, 232-33, 240,

267, 290, and 293); a number of useful formulae for the solution of mathematical problems in insurance (pp. 50-51 and 70-72); a short sketch of the historical development of mortality tables (pp. 54-64); a discussion of the results of the recent "Medico-Actuarial Investigation" of the mortality experience of insurance companies (pp. 66-68 and 102-8); a description (too brief to be clear) of stipulated premium insurance (p. 124); a discussion of the recent tendency of stock companies to mutualize (pp. 132-33); and sections on the compensation of agents (pp. 146-47), the proper basis for the comparison of companies (pp. 150-55), group insurance (pp. 162-64), policy loans (pp. 177-85), methods of valuing policies (pp. 238-42), the legal limitation of expenses (pp. 254-55), and workman's compensation (pp. 313-17).

The final chapter, on the "Relation of the State to Insurance," which is identical with the concluding chapter of the volume on fire insurance, contains some material from a chapter of the same title in the old edition, but the discussion is largely new. Valuable features include sections on "Popular Fallacies regarding Insurance" and "The True Character of the Insurance Premium," and discussions of the questions as to whether the insurance business is "public" or "private," monopolistic or competitive, and of the evil effects of excessive competition, the advantages and disadvantages of the proposed federal regulation of the insurance business, and the controversy over the taxation of insurance companies. It is difficult to account, however, for the inclusion of the detailed discussion of the fire insurance business, which in the aggregate occupies fully 13 pages of the chapter, unless it was necessary for the author to economize in time by using the same chapter to conclude both volumes. This space might better have been devoted in whole or in part to a concise discussion of the causes and the results of the insurance investigations of 1905 and 1906, which are several times mentioned incidentally but nowhere adequately described.

The author, as above stated, has made some changes in organization in the new edition. It is to be regretted that he did not make more. The book would be more effective, in the opinion of the reviewer, if the sketch of the historical development of life insurance presented in the first chapter had been postponed until the reader had been given an opportunity to learn something about the nature, uses, and "theory" of life insurance. The chapter on policies (chap. vi) might well have been introduced earlier in order to familiarize the reader with the nature of the goods sold by life insurance companies before taking him into a discussion of mortality tables, the selection of lives, and the organization

of companies. The chapter on "Mortality Tables" (chap. iii) and the chapter on "The Premium" (chap. vii) should not be so widely separated. The discussion of "How to Compare Companies" (new material) in the chapter on "Life Insurance Organizations" (pp. 150-55) and the discussion of "Selecting the Company" (repeated from the 1911 edition) in the chapter on "The Surplus and Dividends" (pp. 272-75) should be combined.

A defect common to both editions is the failure to emphasize sufficiently the distinction between dividends to stockholders and dividends to policyholders in the discussion of surplus and dividends (chap. ix of the new edition). The uninformed reader will be likely to get the impression from this discussion that all dividends paid by insurance companies go to policyholders.

Among minor defects may be mentioned the failure of some of the section headings to cover the contents of the sections to which they are applied, and the general absence of citations for quotations from other writers (pp. 47, 86, 110, 125, 261, and 344) and for court decisions (pp. 345 and 346).

The insertion of new material in the old text has resulted in some inconsistencies and errors of statement against which the reader should be on guard. For example, the author states on pages 89 and 90, using the language of the 1911 edition, that a life insurance company in order to protect itself against "self-selection" must "require medical examination" of applicants for insurance, and waits until page 163 to state that this examination may not be required of applicants for the group insurance policies now being sold in the United States. Again, the author has taken the paragraph on page 78 which contains statistics showing the mortality experience "of the ordinary legal reserve [and the legal reserve?] industrial companies" for "*the past ten years*" verbatim from the 1911 edition, and the percentages given probably do not apply to the ten years preceding the year 1917. Most of the historical statistical data in the book, however, have been brought down to the year 1914.

Defects arising from the elimination of portions of the 1911 edition are rare. One such, possibly a typographical error, should be noted. The old edition contained on page 208 the following sentence in its discussion of the "cash item" among the assets of insurance companies and past practices of insurance companies in handling it as revealed by the insurance investigations begun in 1905: "In some cases the officials of the insurance company were officials or directors of the bank and trust companies." This sentence should be inserted after the following

sentence on page 278 of the new edition in order to make the remainder of the paragraph clear: "It was shown in the investigations of 1905 that as high as 20 per cent of the funds of some companies were deposited in banks and trust companies."

The chief defects of the book, however, are defects in language and organization. The former are so numerous that the reviewer is tempted to resort to the comment that the book should have been marked "dictated, but not read." The following examples (the italics are the reviewer's) will illustrate errors in diction which occur too frequently to be permitted to pass unnoticed:

A number of states prohibit the organization of any insurance society on the old assessment plan or the organization of any new company on any other plan than one which will absolutely guarantee the collection of a premium which with safe and wise investments will meet all future demands. It is a kind of dishonesty, which, although often originating in laudable motives, has been all too prevalent in the past [pp. 123-24; 1911 edition, p. 104].

Or a joint policy may be purchased by partners in business which is payable at the *first* death of *one* of the partners in the business [p. 160; 1911 edition, p. 155].

Extended insurance is also another result of the valuation policies. *Extended insurance is that number of years and months* beyond the date when the policyholder lapses his policy during which the policy as a whole still remains in force [p. 244].

In ancient and medieval times the social and industrial organizations often precluded the existence of insurance for the wage earner. Indeed, there was no such class as wage earners as we know them. During the existence of slavery a large part of the work was done by *this class*, and as the slave was considered a species of property, nothing was owed to him by his employer or owner [p. 295; 1911 edition, p. 257].

As is indicated by the foregoing quotations, the author's rough-and-ready use of English does not seriously obscure his meaning. It does, however, distract the attention of the reader and encourage slovenly habits of expression among students.

Volume II, *Fire*, is the author's first book on this subject. It deals, in the order indicated, with the history of fire insurance, the "economics of fire insurance," the different types of business organizations which provide fire insurance, the nature of the hazard in fire insurance, the making of rates, the essential characteristics and various types of the

policy contract, the adjustment of losses, the limitation of the liability of insurance companies for losses and the problem of the fair distribution of the cost of fire insurance, the "finances of fire insurance," fire prevention, and the "relation of the state to insurance."

Considered as a whole the book treats the subjects named in as comprehensive and as intensive a manner as its purpose warrants. Instructors, students, and general readers will find in the book both a valuable source of information as to the facts and theory of fire insurance and an enlightening and stimulating discussion of the complicated problems which arise in the relations between private enterprise and the state in the conduct of the business of fire insurance. Professor Gephart deserves credit for an important contribution to the literature of fire insurance.

The author warns us in his preface that his "discussion of certain questions relating to the regulation of insurance is opposed in some cases to the prevailing public sentiment and practice." The occasion for this warning appears in his treatment of the subjects of rate-making, valued-policy laws, laws prohibiting the enforcement of the co-insurance clause, and laws providing for the taxation of the insurance companies. The author's views, expressed or implied, may be summarized as follows: (1) The theory that competition in rate-making will reduce the price of fire insurance should be abandoned, because experience has proved it fallacious. Fire insurance companies should be compelled to adopt and maintain rates made under the supervision of the state—not by the state but by either a co-operative association of the companies or an independent rating bureau. (2) A reduction in the number of fire insurance companies and agents would probably reduce rather than increase the price of fire insurance (p. 72). (3) Valued-policy laws and laws preventing the enforcement of the co-insurance clause should be repealed. (4) The tax laws of the several states should be so amended as to secure greater uniformity among the states in the taxation of fire insurance companies; and county and municipal taxes on premium incomes "as an item of local property" and local occupation or license taxes should be abolished.

The suggestion made in some quarters that a government monopoly of the fire insurance business should be substituted for regulated private enterprise the author dismisses as unworthy of extended discussion. "Public, or state, fire insurance," he says, "promises no benefits which cannot better be secured by public control of the business under private enterprise. Whatever reforms are needed can be best accomplished by the fire insurance companies themselves" (p. 325). If the public wants

cheaper fire insurance it should, first, reduce the burning rate by adopting more effective measures for fire prevention, such as "more stringent requirements governing the building and use of property"; and secondly, permit or compel the fire insurance companies to co-operate, under state supervision, in making rates (see chaps. vi, xi, and xii).

The organization of the volume is subject to somewhat the same criticism as that made with respect to the organization of the volume on life insurance. The book would be much improved, in the opinion of the reviewer, if the nature of the goods sold by fire insurance companies were discussed in detail (as in chap. vii, "The Policy Contract") before such subjects as the history of fire insurance (chap. i) and the making of rates (chap. vi) were considered.

There appear to be few inaccuracies in the book, and there are few important omissions of essentials in either fact or theory. It will perhaps be necessary, however, to scrutinize statistics and computations rather carefully. At any rate, something should be done to harmonize the figures included in the following quotation (italicized by the reviewer) from the introductory paragraph in the chapter on "Fire Prevention and the Fire Loss" (p. 245): "In general, the reported losses [in the United States] mean that on the average *a quarter of a billion dollars* worth of property is *annually* destroyed; that is, *a half million a day or thirty thousand dollars* worth of property *every hour of every day in the year*"; which is to say that $\$250,000,000 \div 365 = \$500,000$ and that $\$500,000 \div 24 = \$30,000$!

As in the first volume, one of the minor defects is the frequent absence of citations for quotations and references (pp. 120, 191, 194, 252, 253, 293, 294, and 295). An instance which will be especially annoying to the average reader is found in the discussion of the "L. and L. Schedule" for determining rates (pp. 123-24). This schedule is introduced to the reader by the statement that "another schedule which is receiving attention is the L. and L. Rating System," and the explanation that "this schedule was devised in 1915 and has had some experimental application," but no information is given with respect to the authorship of the schedule and no references which would aid the curious are included either in footnotes or bibliography.

The defects in the language of the volume are similar to those in the language of its companion volume, but are less numerous and perhaps less serious. In general, the author seems to be improving a style which would deserve praise for clearness and forcefulness if it were not for its too-frequent lapses into unidiomatic phrases and grammatical errors.

The following examples (in which the italics are the reviewer's) illustrate the language of the volume at its worst:

This [referring to a law enacted in Massachusetts in 1837] may be considered as the first of the unearned premium laws, that is, a setting aside of a part of the premiums in a reserve fund [p. 19].

The schedule of rates is difficult to understand by the property owner [p. 75].

So far as the actual work of the best *brokers* is concerned, *his services* to the insured are not greatly different from *that* of the agent. But *their* relation to the company is different [p. 77].

Exception may also be taken to the statement (p. 154) that "it is a general principle of all insurance that the insured should in no manner gain from the insurance contract." The author intends here of course to emphasize the indemnity principle in fire insurance, but it is hardly necessary in furtherance of this purpose to deprive the insured of all incentive to buy insurance.

W. M. DUFFUS

UNIVERSITY OF KANSAS

Foreign Exchange Explained. By FRANKLIN T. ESCHER. New York: Macmillan, 1917. Pp. 219. \$1.25.

Foreign Exchange Explained was written "to supply the need for a book from which, without too great effort, the student, the business man, and the banker could get a working knowledge of the subject. . . . To set down, not a mass of figures and calculations of interest only to the exchange expert, obsolete as soon as compiled, but rather a clean-cut, definite description of foreign exchange and of the underlying and unchanging principles on which it works—that has been the author's aim" (Preface, p. v). So far as purpose is concerned, then, *Foreign Exchange Explained* has a mission not essentially different from its predecessor, *The Elements of Foreign Exchange* (1910). This earlier work also was written, quoting from the Preface, "to cover the ground of foreign exchange, but in such a way as to make the subject interesting and its treatment readable and comprehensible to the man without technical knowledge."

In fact, upon examination this recent work proves to be a reorganization, a reworking, and an elaboration of the earlier publication. Some